

Dabur India

STOCK INFO.	BLOOMBERG
BSE Sensex: 11,939	DABUR IN
	REUTERS CODE
S&P CNX: 3,556	DABU.BO

26 April 2006

Buy
Previous Recommendation: Buy
Rs133

Equity Shares (m)	572.8
52-Week Range	139/56
1,6,12 Rel. Perf. (%)	4/6/44
M.Cap. (Rs b)	75.9
M.Cap. (US\$ b)	1.7

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/06A	18,996	2,266	4.0	44.3	33.5	16.3	48.6	40.6	4.0	26.2
03/07E	23,044	2,951	5.1	30.2	25.8	12.7	49.4	47.3	3.2	20.2
03/08E	26,280	3,562	6.2	20.7	21.4	10.0	47.1	46.2	2.7	17.0

Dabur's 4QFY06 results were better than we had expected. Revenues grew 21.5% YoY. Operating margins expanded 172bp to 16.3%, primarily due to strong volume growth across categories, efficiencies in procurement of raw materials and fiscal benefits for manufacturing units in Baddi. PAT (before minority interest and exceptional items) for the quarter was up 46.4% YoY. The company reported an exceptional loss of Rs127.4m on account of writing off non-core investments in Dabon International.

For FY06, the company showed impressive performance, driven by strong revenue growth and margin expansion in Dabur Foods and Balsara. Overall revenues grew 23.6%, driven by strong growth in Foods (46.3%), Home Care (63%), Consumer Health (38.6%) and Toothpaste (31.9%). Balsara sales increased by 35% to Rs1.9b. Dabur Foods reported sales growth of 46.3% to Rs1.9b.

We expect Dabur Foods, Balsara, CHD and International Operations to enable the company to achieve 17.5% CAGR in topline and 25% CAGR in bottomline during FY06-08. We are upgrading our EPS estimates by 8.5% for FY07 to Rs5.1 and by 7.1% for FY08 to Rs6.1. The stock currently trades at 25.8x FY07E and 21.4x FY08E earnings. We maintain our **Buy** recommendation.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY05				FY06				FY05	FY06
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,444	3,710	4,266	3,950	4,147	4,675	5,374	4,799	15,370	18,996
YoY Change (%)	21.9	16.3	10.8	15.1	20.4	26.0	26.0	21.5	15.6	23.6
Total Exp	3,104	3,119	3,675	3,373	3,655	3,870	4,547	4,016	13,272	16,088
EBITDA	340	591	591	577	492	805	827	784	2,098	2,908
Margins (%)	9.9	15.9	13.9	14.6	11.9	17.2	15.4	16.3	13.6	15.3
Depreciation	-73	-78	-57	-97	-76	-84	-83	-69	-305	-312
Interest	-30	-34	-35	-26	-40	-47	-53	-24	-124	-164
Other Income	18	21	21	32	18	38	56	22	92	134
PBT	255	500	520	486	394	713	747	713	1,761	2,566
Tax	-34	-56	-48	-53	-50	-85	-86	-80	-191	-300
Rate (%)	13.3	11.2	9.2	10.9	12.6	12.0	11.5	11.2	10.8	11.7
PAT	221	444	472	433	345	627	661	633	1,570	2,266
YoY Change (%)	98.7	19.0	40.8	58.3	55.6	41.3	40.0	46.4	43.6	44.3
Minority Interest	-6.1	-10.4	-0.1	4.6	4	17	-12	-6		3.2
Extraordinary Inc/(Exp)	0	0	0	0	0	0	0	-127	0	-127
Reported PAT	215	434	472	433	349	644	649	500	1,570	2,139

E: MOST Estimates

Home Care and Foods drive robust revenue growth

Dabur reported revenue growth of 23.6% for FY06, driven by strong growth in Foods, Consumer Health, Home Care, Baby & Skin Care, and Toothpastes. The Foods division remains a strong growth driver – Dabur’s flagship brand, *Real* delivered 46.5% revenue growth during the year. Home Care reported an impressive 63% growth for FY06, with Balsara brands *Odonil*, *Odomos* and *Sanifresh* growing by 80%, 70% and 71%, respectively. The Hair Oil business continued to struggle, primarily due to low coconut oil prices, which have impacted the sale of *Vatika* hair oil. The management intends to reduce *Vatika* prices to make it more competitive vis-à-vis other coconut oil players.

Revenues from Baby & Skin Care crossed Rs1b in FY06, as the company entered the highly competitive toilet soaps market through its *Vatika Honey and Saffron* soap. Consumer Health reported revenues of Rs1.5b, driven by several new marketing initiatives and OTC launch of *Honitus* cough syrup. Oral Care reported a growth of 6%, led primarily by 31.9% growth in toothpastes. *Dabur Red* toothpowder reported 10% volume decline due to category de-growth. International business grew 18.9%, led by strong growth in GCC (Saudi Arabia, UAE, etc.), Egypt and Bangladesh.

The management is confident of strong revenue growth over the next year, with Foods, Toothpaste and Home Care being the key drivers. The management has indicated that they were looking at introducing several new products in Home Care. Further, the company continues to scout for acquisitions, particularly in the Consumer Health Care and Foods businesses.

Balsara profitability continues to improve

Balsara reported a profit of Rs148m for FY06, against a loss for FY05. Revenues grew by an impressive 35.3% and operating margins for the year were 7.8%. Dabur has invested in Balsara’s Oral Care and Home Care portfolio,

CATEGORY-WISE REVENUE GROWTH

CATEGORIES	GROWTH (%)	REMARKS
Hair Care	4.6	Amla Hair Oil grew 5.2%. Improved its market share in Amla based oils from 71% to 71.8%. <i>Vatika</i> shampoos grew 8.7%.
Health Supplements	15	<i>Chywanprash</i> grew 11.8% and recorded market share of 62.7% in FY06. <i>Glucose & Honey</i> grew 40% YoY and 9.4% YoY respectively.
Oral Care (<i>Babool</i> & <i>Meswak</i> are Balsara brands)	6.0	Toothpaste portfolio led the growth with 31.9% YoY growth. <i>Babool</i> grew 70% YoY backed by a new ad campaign, while <i>Meswak</i> reported 72% YoY growth.
Baby & Skin Care	34.3	Baby & Skin Care clocked a turnover of Rs1b in FY06. <i>Vatika Honey</i> and <i>Saffron</i> soap launched during the year clocked a turnover of Rs190m. <i>Gulabari</i> and <i>Janamghunti</i> achieved 17.7% YoY and 15.1% YoY growth respectively.
Digestives	2.0	Growth was constrained primarily due to the failure of candybusiness. <i>Pudin Hara</i> grew 15.4%YoY. <i>Hajmola</i> tablets grew 5.8% YoY.
Home Care (<i>Odomos</i> , <i>Odonil</i> and <i>Odopic</i> are Balsara brands).	63.0	<i>Odomos</i> , <i>Odonil</i> and <i>Sanifresh</i> grew 80%, 70% and 71% respectively.
Consumer Health in Division	38.7	Clocked a turnover of Rs1.486b FY06. <i>Honitus</i> cough syrup recorded a growth of 66.9%.
Foods	46.3	Clocked turnover of Rs1.9b in FY06. <i>Real</i> brand grew 46.4% YoY, while <i>Real Activ</i> grew 99% YoY.
International Business Division	18.9	GCC markets grew 26.6%, while Bangladesh grew 53.7%.

All figures are for FY06 Source:Company/ Motilal Oswal Securities

while reducing cost pressures. Dabur has also focused on strengthening the distribution of Balsara brands, thereby improving their reach and increasing revenues. We expect Balsara to report 25% sales growth, with over 65% growth in profits during FY07.

Dabur Foods to maintain growth momentum

We expect the Foods industry as a whole to witness strong growth during FY07 and FY08, aided by increasing penetration of packed juices and attempts by the industry to grow the category. Dabur Foods' strong brands would enable it to maintain growth momentum despite rising competition from both domestic and international brands. Cooking pastes would also emerge as a major contributor to topline growth.

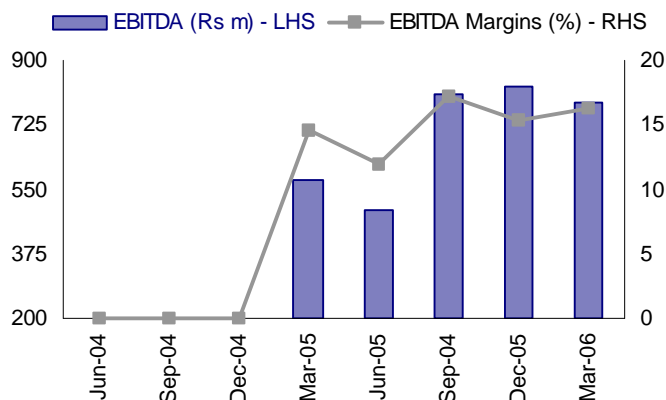
Margin expansion to slow down, but pricing power is improving

Dabur's operating margins have expanded by 172bp in FY06 and by over 300bp during the last two years. Margin expansion has been driven by the following factors:

- ✎ Fiscal benefits flowing in from the operation of new manufacturing facilities in tax exempt areas.
- ✎ Increased efficiencies in procurement of key raw materials like edible oils, honey, and packing material.
- ✎ Improving profitability of Balsara and Foods division.

We believe that the major portion of fiscal benefits has already been absorbed and margin expansion would be more a function of Balsara profitability and improved pricing power, going forward. We expect margin expansion to slow down to 70bp in FY07 and peak out in FY08 due to rising proportion of low margin Dabur Foods business.

TREND IN EBITDA MARGINS



Source: Company/ Motilal Oswal Securities

Valuation and view

We believe that Dabur is witnessing strong traction in its core portfolio, with high margin Consumer Health and *Chywanprash* showing strong growth. Revenue growth in Foods and increasing profitability of Balsara would drive margin expansion in FY07. The company continues to be on the lookout for possible acquisitions to consolidate its position in various segments. We expect the company to report an EPS of Rs5.1 in FY07 and Rs6.1 in FY08. We expect sales to grow at 17.5% CAGR and PAT to grow at 25% CAGR over FY06-08, which would sustain current premium valuations. The stock is currently trading at 25.8x FY07E EPS and 21.4x FY08E EPS. We maintain **Buy**.

Dabur India: an investment profile

Company description

Dabur is the 4th largest listed consumer company and the 2nd largest amongst Indian owned companies. Dabur is a market leader in *Paked Juices* category and is increasing its presence in other traditional categories like oral care, household care. Dabur's acquisition of Balsara has given it an entry in toothpaste and household care.

Key investment arguments

- ✍ Broad product portfolio, no single product category is more than 10% of sales, thereby risk to growth is low in case of single categories slow down.
- ✍ We estimates 17.5% topline and 25% PAT CAGR over FY06-08E.

Key investment risks

- ✍ Dabur's core portfolio consists of mature categories like Chyawanprash and Toothpowder, which are showing signs of slow down.

Recent developments

- ✍ The Board of Directors declared a Bonus issue of 1:1.
- ✍ Entered the personal wash segment with the launch of its new Vatika – Honey & Saffron Soap.
- ✍ Test marketed a health drink.

Valuation and view

- ✍ We have an EPS forecasts of Rs5.1 for FY07E and Rs6.2 for FY08E, a CAGR of 24.5% over FY06-08E.
- ✍ The stock is trading at 25.8x FY07E EPS, and 21.4x FY08E EPS. We maintain **Buy**.

Sector view

- ✍ We are positive on the sector. The sector is showing strong volume growth across product categories with improving pricing power for leading players.
- ✍ Companies with low competitive pressures and brought product portfolios will be able to better with stand any slowdown in a particular segment.
- ✍ Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		DABUR	MARICO	GCPL
P/E (x)	FY07E	25.8	23.0	27.8
	FY08E	21.4	19.3	22.1
P/BV (x)	FY07E	12.7	9.1	36.2
	FY08E	10.0	7.1	25.6
EV/Sales (x)	FY07E	3.2	2.3	5.3
	FY08E	2.7	2.0	4.5
EV/EBITDA (x)	FY07E	20.2	15.8	22.8
	FY08E	17.0	13.1	18.2

SHAREHOLDING PATTERN (%)

	MAR.06	DEC.05	MAR.05
Promoters	74.1	76.7	78.1
Domestic Institutions	6.3	4.6	5.2
FII's/FDIs	10.4	8.8	7.2
Others	9.2	10.0	9.5

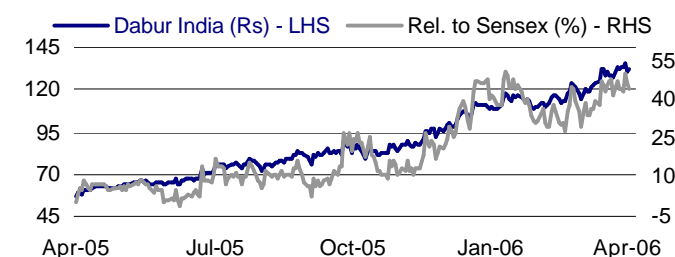
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	5.1	4.2	20.3
FY08	6.2	5.7	8.8

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
133	150	12.8	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Net Sales	13,296	15,370	18,996	23,044	26,280	
Change (%)	2.5	15.6	23.6	21.3	14.0	
Total Expenditure	-11,704	-13,281	-16,088	-19,367	-22,040	
EBITDA	1,592	2,088	2,908	3,677	4,240	
Change (%)	1.1	31.2	39.3	26.4	15.3	
Margin (%)	2.0	13.6	15.3	16.0	16.1	
Depreciation	-288	-295	-312	-383	-395	
Int. and Fin. Charges	-153	-124	-164	-150	-119	
Other Income - Recurring	91	92	134	207	318	
Profit before Taxes	1,242	1,761	2,566	3,351	4,044	
Change (%)	16.8	41.8	45.7	30.6	20.7	
Margin (%)	9.3	11.5	13.5	14.5	15.4	
Tax	-114	-151	-265	-316	-381	
Deferred Tax	-35	-40	-35	-84	-101	
Tax Rate (%)	-2.0	-10.8	-11.7	-11.9	-11.9	
Profit after Taxes	1,093	1,570	2,266	2,951	3,562	
Change (%)	17.5	43.6	44.3	30.2	20.7	
Margin (%)	8.2	10.2	11.9	12.8	13.6	
Exceptional Items	0	0	-127	0	0	
Minority Interest	-28	-12	3	-15	-16	
Reported PAT	1,065	1,558	2,142	2,937	3,546	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
Share Capital	286	286	572	572	572	
Reserves	2,575	3,353	4,087	5,401	6,988	
Net Worth	2,861	3,639	4,660	5,974	7,561	
Minority Interest	144	152	165	180	196	
Loans	1,245	1,509	1,899	1,250	1,250	
Capital Employed	4,250	5,300	6,724	7,404	9,006	
Gross Block	4,121	4,815	7,185	7,385	7,585	
Less: Accum. Depn.	-1,621	-1,870	-2,198	-2,571	-2,956	
Net Fixed Assets	2,501	2,945	4,987	4,814	4,629	
Investments	1,298	2,333	1,295	2,145	4,495	
Curr. Assets, L&A	3,398	4,075	5,279	6,100	6,401	
Inventory	1,528	2,031	2,550	2,805	3,102	
Account Receivables	712	759	926	947	1,080	
Cash and Bank Balance	202	147	367	713	386	
Others	956	1,138	1,437	1,635	1,833	
Curr. Liab. and Prov.	2,939	3,997	4,706	5,429	6,183	
Current Liabilities	2,137	3,044	3,513	3,918	4,366	
Provisions	802	953	1,193	1,512	1,816	
Net Current Assets	459	78	573	670	219	
Miscellaneous Expense	66	58	48	38	28	
Deferred Tax Liability	-74	-114	-180	-263	-364	
Application of Funds	4,250	5,300	6,724	7,404	9,006	

E: MOST Estimates

RATIOS						
Y/E MARCH	2004	2005	2006	2007E	2008E	
Basic (Rs)						
EPS	3.7	5.4	4.0	5.1	6.2	
Cash EPS	4.7	6.5	4.3	5.8	6.9	
BV/Share	10.0	12.7	8.1	10.4	13.2	
DPS	2.0	2.5	2.0	2.6	3.1	
Payout %	54.2	45.9	50.7	50.0	50.0	
Valuation (x)						
P/E		24.4	33.5	25.8	21.4	
Cash P/E		20.5	30.9	22.8	19.2	
EV/Sales		2.4	4.0	3.2	2.7	
EV/EBITDA		17.7	26.2	20.2	17.0	
P/BV		10.4	16.3	12.7	10.0	
Dividend Yield (%)		1.9	1.5	1.9	2.3	
Return Ratios (%)						
RoE	38.2	43.1	48.6	49.4	47.1	
RoCE	32.8	35.6	40.6	47.3	46.2	
Working Capital Ratios						
Debtor (Days)	20	18	18	15	15	
Asset Turnover (x)	3.1	2.9	2.8	3.1	2.9	
Leverage Ratio						
Debt/Equity (x)	0.4	0.4	0.4	0.2	0.2	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2004	2005	2006	2007E	2008E	
OP/(loss) before Tax	1,304	1,793	2,596	3,294	3,845	
Int./Div. Received	91	92	134	207	318	
Depreciation and Amort.	288	295	312	383	395	
Interest Paid	-153	-124	-164	-150	-119	
Direct Taxes Paid	-114	-151	-265	-316	-381	
(Incr)/Decr in WC	2,128	326	-275	249	125	
CF from Operations	3,544	2,231	2,338	3,667	4,183	
Extraordinary Items	0	0	-127	0	0	
(Incr)/Decr in FA	334	-694	-2,370	-200	-200	
(Pur)/Sale of Investments	-280	-1,035	1,038	-850	-2,350	
CF from Invest.	53	-1,729	-1,459	-1,050	-2,550	
Issue of Shares	0	0	0	0	0	
(Incr)/Decr in Debt	-897	264	390	-649	0	
Dividend Paid	-577	-716	-1,147	-1,468	-1,773	
Others	-2,344	-105	98	-154	-186	
CF from Fin. Activity	-3,818	-557	-659	-2,271	-1,959	
Incr/Decr of Cash	-221	-55	219	345	-326	
Add: Opening Balance	423	202	147	367	713	
Closing Balance	202	147	367	712	386	



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Dabur India

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| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |

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